

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

M. ANTHONY JAMES, P.E.

FEBRUARY 22, 2011



DOCKET NO. 2010-376-E

**Petition of South Carolina Electric & Gas Company
for Updates and Revisions to Schedules Related to
the Construction of a Nuclear Base Load Generation
Facility at Jenkinsville, South Carolina**

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FOR

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**IN RE: PETITION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY
FOR UPDATES AND REVISIONS TO SCHEDULES RELATED TO THE
CONSTRUCTION OF A NUCLEAR BASE LOAD GENERATION FACILITY AT
JENKINSVILLE, SOUTH CAROLINA**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Anthony James. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Associate Program Manager in the Electric Department of the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I hold a Bachelor's Degree in Engineering and a Master's Degree in Earth and Environmental Resources Management from the University of South Carolina. I am a Professional Engineer registered in the State of South Carolina, a member of the South Carolina Society of Professional Engineers and a member of the NARUC Staff Subcommittee on Electricity. I have been employed as a Project Engineer at environmental engineering consulting firms and at the South Carolina Department of Health and Environmental Control ("DHEC"). I joined DHEC in 1991 and was promoted from Project Engineer to Program Manager in 1995. As Program Manager in the Bureau of Water, I was responsible for coordinating DHEC's statewide wastewater compliance efforts. In 2004, I joined ORS as Senior Electric Specialist and was promoted to Associate Program Manager in 2009. As Associate Program Manager, my

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responsibilities range from supporting senior management in reviewing base load plant applications, to serving as the lead contact for renewable energy activities. Collectively, I have more than twenty years of experience as an environmental engineer in regulatory compliance.

Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have testified before the Commission in general base rate cases as well as a number of fuel clause proceedings. I have also been an ORS witness in proceedings regarding renewable energy resources, specifically, net metering programs and smart grid standards.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to summarize ORS’s regulatory oversight activities with regard to the construction of a nuclear base load facility at Jenkinsville, SC (the “Project” or “Facility”) by South Carolina Electric & Gas Company (the “Company” or “SCE&G”) and the South Carolina Public Service Authority (“Santee Cooper”).

Q. DOES ORS HAVE ANY REGULATORY OVERSIGHT RESPONSIBILITIES OF SANTEE COOPER WITH REGARD TO THIS PROJECT?

A. No, we do not.

Q. WHAT ESTABLISHES ORS’S OVERSIGHT RESPONSIBILITIES?

A. Section 58-33-277(B) of the Base Load Review Act (“BLRA”) states that “[t]he Office of Regulatory Staff shall conduct on-going monitoring of the construction of the plant and expenditure of capital through review and audit of the quarterly reports under

1 this article, and shall have the right to inspect the books and records regarding the plant
2 and the physical progress of construction upon reasonable notice to the utility.”

3 **Q. WHAT ARE THE PRIMARY FOCUS AREAS OF ORS’S OVERSIGHT**
4 **ACTIVITIES?**

5 **A.** Section 58-33-275(A) of the BLRA states, “...capital costs are prudent utility
6 costs and expenses and are properly included in rates so long as the plant is constructed
7 or is being constructed within the parameters of: (1) the approved construction schedule
8 including contingencies; and (2) the approved capital costs estimates including specified
9 contingencies.” Accordingly, ORS’s oversight activities primarily focus on the
10 Company’s ability to adhere to the approved construction schedule and the approved
11 capital costs estimates.

12 **Q. PLEASE DESCRIBE ORS’S OVERSIGHT ACTIVITIES WITH REGARD TO**
13 **ITS ON-GOING MONITORING OF THE APPROVED MILESTONE**
14 **SCHEDULE.**

15 **A.** The Company’s required quarterly reports provide a status of the approved BLRA
16 milestone schedule. The BLRA milestone schedule consists of 146 milestone activities.
17 ORS verifies the status of each milestone activity to ensure the activity is in accordance
18 with the Commission’s order. It should be noted that milestone activities are allowed to
19 be accelerated by up to 24 months or delayed by up to 18 months. Additionally, Caution
20 Milestones are identified and monitored. Caution Milestones are milestone activities that
21 have been delayed 10 months or greater, and are subject to additional ORS examination.

22 **Q. WHAT OTHER ACTIVITIES DOES ORS PERFORM AS PART OF ITS ON-**
23 **GOING CONSTRUCTION MONITORING?**

A. ORS makes regular visits to the construction site in Jenkinsville to perform on-site document reviews and site evaluations. During these visits, ORS meets with SCE&G's New Nuclear Deployment ("NND") personnel and reviews numerous documents that relate to the approved construction schedule. These documents include, but are not limited to: the weekly construction activities report, detailed construction schedules, milestone comparison activity report, milestone schedule recovery plans, major component fabrication status log and meeting minutes. Also, ORS performs on-site evaluations to physically observe construction activities to ensure construction progress is consistent with NND documentation.

Q. PLEASE DESCRIBE ORS'S OVERSIGHT ACTIVITIES WITH REGARD TO ITS ON-GOING MONITORING OF THE APPROVED CAPITAL COST ESTIMATES.

A. The Company's quarterly reports provide a status of the approved capital cost estimates. ORS evaluates the Company's quarterly reports with a focus on the capital cost estimates, project cash flow, allowance for funds used during construction ("AFUDC") and escalation. Collectively, these focus areas determine the status of the project budget.

ORS compares the capital cost estimates approved by the Commission to the cost estimates in the Company's quarterly reports. This comparison focuses on the major cost categories, which are:

- Fixed with No Adjustment
- Firm with Fixed Adjustment A
- Firm with Fixed Adjustment B
- Firm with Indexed Adjustment

- Actual Craft Wages
- Non-Labor Cost
- Time & Materials
- Owners Costs
- Transmission Projects

ORS evaluates cost variances which may be due to various project changes (e.g., shifts in work scopes, payment timetables, construction schedule adjustments, change orders, etc.) to determine if the cumulative amount of these changes impact the total approved capital cost of the project (in 2007 dollars).

In a similar fashion, ORS compares the approved project cash flow to the project cash flow in the Company's quarterly reports. This comparison focuses on any impact to annual cash flow requirements.

Lastly, AFUDC and escalation rates are evaluated to determine if appropriate rates have been applied.

Q. WHAT OTHER ACTIVITIES DOES ORS PERFORM AS PART OF ITS ON-GOING MONITORING OF THE APPROVED CAPITAL COST ESTIMATES?

A. During on-site visits, the ORS Electric Department staff reviews documents that may impact the project budget. Examples of such documents are contract amendments and change orders. The ORS Electric Department staff also reviews invoices associated with completed milestone activities to ensure milestone payments are consistent with the EPC milestone payment schedules. In addition, ORS's Audit Division further evaluates the Company's actual project expenditures.

Q. COULD YOU PLEASE ELABORATE ON ORS'S AUDIT DIVISION'S EVALUATIONS?

1 **A.** Yes. ORS Audit Division personnel conduct regulatory audit procedures on the
2 Company's recorded project expenditures. ORS evaluates the Company's accounting
3 controls over project expenditures and, based on this evaluation, ORS determines the
4 extent to which these controls prevent improper payments.

5 **Q. DOES ORS EXAMINE EACH DISBURSEMENT TO ENSURE THAT THE**
6 **CONTROLS OVER DISBURSEMENTS ARE BEING PROPERLY APPLIED?**

7 **A.** No. In accordance with standard audit procedures, ORS examines a sample of
8 expenditures to ensure that the controls are being applied. These samples are selected
9 from the entire population of charges to the construction project account.

10 **Q. COULD YOU PLEASE DESCRIBE THE PROCEDURES PERFORMED TO**
11 **ENSURE THAT DISBURSEMENTS COMPLY WITH THE INTERNAL**
12 **CONTROLS DESCRIBED PREVIOUSLY?**

13 **A.** For each disbursement selected, Audit staff examines vendor invoices to ensure:
14 invoices are from valid vendors; charges included are related to the project; the charges
15 are for the correct time period; invoices are mathematically correct; proper approval
16 signatures are evident on the invoice routing documents; accounts charged are consistent
17 with the nature of the disbursements; and items have been charged to the proper EPC
18 contract cost category.

19 **Q. WHAT OTHER ACTIVITIES DOES ORS PERFORM AS PART OF ITS ON-**
20 **GOING MONITORING OF THE PROJECT?**

21 **A.** ORS technical staff and executive management from various departments
22 participate in monthly meetings with NND personnel, attend quarterly meetings with
23 Westinghouse representatives, conduct periodic site tours and attend Nuclear Regulatory

Commission ("NRC") public meetings held near the site. Additionally, to keep abreast of the federal licensing process, ORS Electric Department staff have attended NRC Advisory Committee on Reactor Safeguards Subcommittee meetings held in Rockville, MD. Also, ORS routinely participates in NRC conference call meetings to monitor activities related to the project.

Q. ARE THE RESULTS OF ORS'S OVERSIGHT ACTIVITIES AVAILABLE TO THE PUBLIC?

A. Yes. Subsequent to each quarterly report filed by SCE&G, ORS generates a report which details ORS's review of the Company's quarterly report as well as other notable activities related to the construction of the Facility. ORS reviews are non-confidential reports and available for public review at www.regulatorystaff.sc.gov. In addition to ORS's review of SCE&G's quarterly reports, ORS responds to the Company's annual request for revised rates. ORS examines SCE&G's annual filing which seeks rate recovery for the financing of project expenditures. ORS reviews the request and issues a report documenting its findings. This report incorporates ORS's oversight monitoring activities such as ORS's quarterly reviews and its on-going audit evaluations of project expenditures. A copy of the report is filed annually with the Commission and is also available for public review.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.